

City of Melvindale, Michigan

**Financial Report
with Supplemental Information
December 31, 2007**

City of Melvindale, Michigan

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Independent Auditor's Report

To the City Council
City of Melvindale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Melvindale, Michigan as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Melvindale, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Melvindale, Michigan as of December 31, 2007 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Melvindale, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Melvindale, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2008 on our consideration of the City of Melvindale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

June 2, 2008

City of Melvindale, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Melvindale, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2007:

- State-shared revenue, our second largest revenue source, has been on a downward slope since 2000. Cumulatively, since 2000, the City has received approximately \$2.3 million less than expected. The City reacted by limiting discretionary spending amounts where possible and delaying the filling of open personnel positions. State-shared revenue accounts for approximately 17 percent of the City's total General Fund revenue.
- Property taxes are the City's single largest source of revenue. The City's taxable value for 2007 was \$233,667,666, which represents an increase of approximately 5.3 percent from 2006. The City's operating, refuse, and library millage rates, however, were rolled back as required by the Headlee Amendment and Proposal A. Through Proposal A, growth on existing taxable value is limited to the Consumer Price Index or 5 percent, whichever is less.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view: they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Melvindale, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of December 31, 2007 and 2006 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 3,481	\$ 3,385	\$ 993	\$ 826	\$ 4,474	\$ 4,211
Noncurrent assets	<u>7,935</u>	<u>7,533</u>	<u>12,153</u>	<u>12,675</u>	<u>20,088</u>	<u>20,208</u>
Total assets	11,416	10,918	13,146	13,501	24,562	24,419
Liabilities						
Current liabilities	2,615	2,362	1,034	1,248	3,649	3,610
Long-term liabilities	<u>2,502</u>	<u>2,899</u>	<u>6,401</u>	<u>6,924</u>	<u>8,903</u>	<u>9,823</u>
Total liabilities	<u>5,117</u>	<u>5,261</u>	<u>7,435</u>	<u>8,172</u>	<u>12,552</u>	<u>13,433</u>
Net Assets						
Invested in capital assets - Net of related debt	6,068	5,642	4,915	4,779	10,983	10,421
Restricted	472	631	448	456	920	1,087
Unrestricted (deficit)	<u>(241)</u>	<u>(616)</u>	<u>348</u>	<u>94</u>	<u>107</u>	<u>(522)</u>
Total net assets	<u>\$ 6,299</u>	<u>\$ 5,657</u>	<u>\$ 5,711</u>	<u>\$ 5,329</u>	<u>\$ 12,010</u>	<u>\$ 10,986</u>

The City has combined net assets of approximately \$12.0 million in 2007 and \$11.0 million in 2006. Business-type activities comprise approximately \$5.7 million of the total net assets in 2007 and approximately \$5.3 million in 2006. The significant changes were:

- The governmental unrestricted net deficit decreased by approximately \$375,000, with an ending deficit of approximately \$241,000. The decrease in the deficit was a result of the proceeds from the sale of the Court building, contributions of infrastructure from the DDA, as well as continued allocation of administrative costs to the appropriate funds.
- The business-type unrestricted net assets increased approximately \$254,000 to a balance of approximately \$348,000. The primary reason for the increase is the continued impact of the 2005 rate increases in the Water and Sewer Fund. While the Ice Arena Fund had an increase in net assets of approximately \$33,000 in 2007, the fund still has an unrestricted net deficit of approximately \$488,000 at December 31, 2007.

City of Melvindale, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the years ended December 31, 2007 and 2006 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 2,522	\$ 2,678	\$ 4,028	\$ 4,314	\$ 6,550	\$ 6,992
Operating grants and contributions	782	830	-	-	782	830
Capital grants and contributions	171	187	-	400	171	587
General revenue:						
Property taxes	5,373	5,103	-	-	5,373	5,103
State-shared revenue	1,916	1,678	-	-	1,916	1,678
Unrestricted investment earnings	109	97	-	-	109	97
Franchise fees	123	105	-	-	123	105
Miscellaneous and other revenue	274	119	-	-	274	119
Total revenue	11,270	10,797	4,028	4,714	15,298	15,511
Program Expenses						
General government	1,672	1,284	-	-	1,672	1,284
Public safety	6,253	6,182	-	-	6,253	6,182
Public works	1,923	1,896	-	-	1,923	1,896
Health and welfare	145	140	-	-	145	140
Community and economic development	174	302	-	-	174	302
Recreation and culture	377	353	-	-	377	353
Interest on long-term debt	84	81	-	-	84	81
Water and sewer	-	-	2,958	3,216	2,958	3,216
Ice arena	-	-	688	798	688	798
Total program expenses	10,628	10,238	3,646	4,014	14,274	14,252
Change in Net Assets	\$ 642	\$ 559	\$ 382	\$ 700	\$ 1,024	\$ 1,259

Governmental Activities

The City's total governmental revenues increased by approximately \$473,000 from 2006 to 2007. The majority of the increase related to increased property tax revenue.

In total, expenses increased by approximately \$390,000 from 2006 to 2007. The most significant increase in expenses related to increased healthcare costs and retirement contributions in 2007.

City of Melvindale, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and the Ice Arena Fund. The City provides water to residents from the Detroit water system. Both business-type activities had positive operating income. The Water and Sewer Fund had approximately \$548,000 of operating income in 2007 as compared to operating income of \$478,000 in 2006. Net assets of the Water and Sewer Fund increased approximately \$349,000 after nonoperating expenses. This is due primarily to the increase in rates in the later portion of 2005. The Ice Arena Fund had approximately \$132,000 of operating income in 2007 as compared to operating income of \$135,000 in 2006. Net assets increased approximately \$33,000. This increase in net assets was due to careful monitoring of expenses, including leaving positions unfilled in the current year.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City of Melvindale Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2007 include the General Fund, the Water and Sewer Fund, and the Ice Arena Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$3,501,000 in 2007, a decrease of approximately \$12,000 from 2006, and represents approximately 35 percent of the total General Fund expenditures. The entire cost of the police and fire departments is funded by general revenue sources of the General Fund. The General Fund also contributed approximately \$1,300,000 to employee health care, which represented an increase of approximately \$200,000 over 2006. Health care represents approximately 12.9 percent of the General Fund expenditures.

The overall General Fund performance for 2007 resulted in a decrease in the fund deficit of \$24,206. The decrease in the deficit in 2006 was \$648,564, and was primarily attributed to one-time proceeds from sales of City-owned property and additional administrative allocations to various funds.

City of Melvindale, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

The most significant expenditure variances from budget for 2007 include the following:

- Expenditures for police and fire exceeded budget as a result of an increase in the amount of overtime in the current year over what was anticipated.
- Expenditures for the controller were higher than anticipated due to interim financial consulting fees, resulting from the transition in the finance department.
- Expenditures for parks and recreation exceeded budget primarily due to improvements to Deluca Field, which were substantially offset by grant revenue.
- MERS expenditures exceeded budget due to higher than anticipated retirement contributions in the current year.

Capital Assets and Debt Administration

The City's investment in capital assets continued to be reduced significantly in response to the reduction in revenue and increased health care and other costs, making purchases when necessary. The City was able to utilize monies in the Major Streets Fund and DDA captures to perform reconstruction and repairs to Prospect Street and certain sidewalks and alleys. A five-year capital asset acquisition plan has been established to identify needed purchases and effectively plan for their costs. The City did not issue any new debt in the current year.

Economic Factors and Next Year's Budgets and Rates

The future remains challenging for the City of Melvindale. The City's budget for next year will show the effects of cost cutting needed to further reduce the deficit. The City has created a deficit reduction task force to present a plan to eliminate the deficit within the required State of Michigan mandated period. The City is currently in the third year of that plan and will remain focused on implementing the plan to eliminate the deficit.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city administrator's office.

City of Melvindale, Michigan

Statement of Net Assets December 31, 2007

	Primary Government			
	Governmental	Business-type		Component Units
	Activities	Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 1,003,168	\$ 260,582	\$ 1,263,750	\$ 1,153,532
Receivables - Net of allowance of \$252,065	945,560	1,462,127	2,407,687	38,228
Internal balances	761,255	(761,255)	-	-
Accounts receivable from primary government (Note 6)	-	-	-	110,216
Due from other governmental units	770,939	-	770,939	-
Inventories	-	-	-	41,221
Prepaid costs and other assets	-	31,713	31,713	-
Long-term advance to (from) other funds	153,173	(153,173)	-	-
Restricted assets (Note 8)	-	847,811	847,811	-
Nondepreciable capital assets - Net (Note 5)	807,541	-	807,541	200,000
Depreciable capital assets - Net (Note 5)	6,974,663	11,458,298	18,432,961	5,826,278
Total assets	11,416,299	13,146,103	24,562,402	7,369,475
Liabilities				
Accounts payable	1,690,589	417,431	2,108,020	36,793
Accrued and other liabilities	529,156	22,927	552,083	146,917
Accounts payable to component units (Note 6)	110,216	-	110,216	-
Noncurrent liabilities:				
Compensated absences due within one year	342,566	32,600	375,166	-
Debt obligations due within one year (Note 7)	182,919	542,500	725,419	-
Accrued liabilities due in more than one year	193,655	-	193,655	-
Compensated absences due in more than one year	536,574	19,012	555,586	-
Debt obligations due in more than one year (Note 7)	1,531,442	6,400,734	7,932,176	-
Total liabilities	5,117,117	7,435,204	12,552,321	183,710
Net Assets				
Invested in capital assets - Net of related debt	6,067,843	4,915,064	10,982,907	6,026,278
Restricted:				
Streets and highways	198,578	-	198,578	-
Grants and property taxes	273,820	-	273,820	-
Covenant restriction (Note 8)	-	447,811	447,811	-
Unrestricted	(241,059)	348,024	106,965	1,159,487
Total net assets	\$ 6,299,182	\$ 5,710,899	\$ 12,010,081	\$ 7,185,765

City of Melvindale, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,672,155	\$ 319,832	\$ -	\$ -
Public safety	6,253,180	1,477,870	80,004	-
Public works	1,922,706	234,728	566,857	170,678
Health and welfare	145,126	-	-	-
Community and economic development	174,311	141,898	134,695	-
Recreation and culture	376,561	347,972	-	-
Interest on long-term debt	83,661	-	-	-
Total governmental activities	10,627,700	2,522,300	781,556	170,678
Business-type activities:				
Water and sewer	2,957,523	3,306,368	-	-
Ice arena	688,021	721,275	-	-
Total primary government	<u>\$ 14,273,244</u>	<u>\$ 6,549,943</u>	<u>\$ 781,556</u>	<u>\$ 170,678</u>
Component units:				
Housing Commission	\$ 1,932,839	\$ 488,400	\$ 1,146,263	\$ 393,917
Economic Development Corporation	12,983	1,645	-	-
Downtown Development Authority	278,871	-	-	-
Total component units	<u>\$ 2,224,693</u>	<u>\$ 490,045</u>	<u>\$ 1,146,263</u>	<u>\$ 393,917</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,352,323)	\$ -	\$ (1,352,323)	\$ -
(4,695,306)	-	(4,695,306)	-
(950,443)	-	(950,443)	-
(145,126)	-	(145,126)	-
102,282	-	102,282	-
(28,589)	-	(28,589)	-
(83,661)	-	(83,661)	-
(7,153,166)	-	(7,153,166)	-
-	348,845	348,845	-
-	33,254	33,254	-
(7,153,166)	382,099	(6,771,067)	-
-	-	-	95,741
-	-	-	(11,338)
-	-	-	(278,871)
-	-	-	(194,468)
5,373,590	-	5,373,590	180,719
1,915,893	-	1,915,893	-
108,760	-	108,760	51,263
122,903	-	122,903	-
273,788	-	273,788	-
7,794,934	-	7,794,934	231,982
641,768	382,099	1,023,867	37,514
5,657,414	5,328,800	10,986,214	7,148,251
\$ 6,299,182	\$ 5,710,899	\$ 12,010,081	\$ 7,185,765

City of Melvindale, Michigan

Governmental Funds Balance Sheet December 31, 2007

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 350,091	\$ 644,117	\$ 994,208
Receivables:			
Taxes	1,011,271	45,363	1,056,634
Other	140,991	-	140,991
Due from other funds (Note 6)	834,493	279,390	1,113,883
Long-term advance to other funds (Note 6)	153,173	-	153,173
Due from other governmental units	673,987	96,952	770,939
Total assets	<u>\$ 3,164,006</u>	<u>\$ 1,065,822</u>	<u>\$ 4,229,828</u>
Liabilities and Fund Balances (Deficit)			
Liabilities			
Accounts payable	\$ 959,315	\$ 316,385	\$ 1,275,700
Accrued and other liabilities	510,688	728	511,416
Due to other funds (Note 6)	663,528	288,684	952,212
Accounts payable to component units	105,625	4,591	110,216
Deferred revenue (Note 4)	1,141,771	88,550	1,230,321
Total liabilities	3,380,927	698,938	4,079,865
Fund Balances (Deficit)			
Reserved for:			
Advance to Enterprise Fund	153,173	-	153,173
Grants	-	41,856	41,856
Unreserved, reported in:			
General Fund	(370,094)	-	(370,094)
Special Revenue Funds	-	325,028	325,028
Total fund balances (deficit)	(216,921)	366,884	149,963
Total liabilities and fund balances (deficit)	<u>\$ 3,164,006</u>	<u>\$ 1,065,822</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			7,782,204
Other receivables are expected to be collected over several years and are not available to pay for current year expenditures (net of allowances)			978,256
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:			
Compensated absences			(879,140)
Long-term debt and accrued interest			(1,732,101)
Net assets of governmental activities			<u>\$ 6,299,182</u>

City of Melvindale, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended December 31, 2007

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 5,319,617	\$ 218,201	\$ 5,537,818
Licenses and permits	353,991	-	353,991
Federal grants	17,124	184,869	201,993
State sources	1,684,997	545,021	2,230,018
Charges for services	971,967	-	971,967
Fines and forfeitures	1,164,223	-	1,164,223
Interest and rentals	151,518	29,621	181,139
Other	525,458	66,373	591,831
Total revenue	10,188,895	1,044,085	11,232,980
Expenditures			
Community maintenance and development	-	59,576	59,576
General government	2,233,885	-	2,233,885
Public safety	3,500,970	71,180	3,572,150
Public works	1,369,014	777,920	2,146,934
Health and welfare	57,185	-	57,185
Recreation and culture	190,398	200,189	390,587
Employee benefits and insurance	2,744,346	-	2,744,346
Debt service	-	263,851	263,851
Total expenditures	10,095,798	1,372,716	11,468,514
Excess of Revenue Over (Under) Expenditures	93,097	(328,631)	(235,534)
Other Financing Sources (Uses)			
Transfers in (Note 6)	-	456,628	456,628
Transfers out (Note 6)	(117,303)	(339,325)	(456,628)
Total other financing sources (uses)	(117,303)	117,303	-
Net Change in Fund Balances	(24,206)	(211,328)	(235,534)
Fund Balances (Deficit) - Beginning of year	(192,715)	578,212	385,497
Fund Balances (Deficit) - End of year	<u>\$ (216,921)</u>	<u>\$ 366,884</u>	<u>\$ 149,963</u>

City of Melvindale, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2007

Net Change in Fund Balances - Total Governmental Funds **\$ (235,534)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	542,672
Capital contribution from DDA is not a current financial resource	170,678
The proceeds from sale of capital assets are reported net of the carrying value of the assets on the government-wide statements	(28,064)
Depreciation expense is not reported in the governmental funds	(415,646)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	352,244
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	97,500
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds	157,918

Change in Net Assets of Governmental Activities **\$ 641,768**

City of Melvindale, Michigan

Proprietary Funds Statement of Net Assets December 31, 2007

	Enterprise - Water and Sewer Fund	Enterprise - Ice Arena Fund	Total Enterprise Funds	Internal Service Fund - Health Care
Assets				
Current assets:				
Cash and cash equivalents	\$ 254,893	\$ 5,689	\$ 260,582	\$ 8,960
Customer receivables	1,414,272	47,855	1,462,127	-
Due from other funds - Current portion (Note 6)	246	-	246	599,584
Prepaid costs and other assets	31,713	-	31,713	-
Total current assets	1,701,124	53,544	1,754,668	608,544
Noncurrent assets:				
Long-term advance to other funds (Note 6)	291,540	-	291,540	-
Restricted assets (Note 8)	847,811	-	847,811	-
Capital assets	7,706,112	3,752,186	11,458,298	-
Total noncurrent assets	8,845,463	3,752,186	12,597,649	-
Total assets	10,546,587	3,805,730	14,352,317	608,544
Liabilities				
Current liabilities:				
Accounts payable	384,653	32,778	417,431	414,889
Accrued and other liabilities	60,818	13,721	74,539	193,655
Due to other funds - Current portion (Note 6)	711,464	50,037	761,501	-
Current portion of long-term debt	400,000	142,500	542,500	-
Total current liabilities	1,556,935	239,036	1,795,971	608,544
Noncurrent liabilities:				
Long-term advances from other funds (Note 6)	-	444,713	444,713	-
Long-term debt - Net of current portion	4,055,734	2,345,000	6,400,734	-
Total noncurrent liabilities	4,055,734	2,789,713	6,845,447	-
Total liabilities	5,612,669	3,028,749	8,641,418	608,544
Net Assets				
Investment in capital assets - Net of related debt	3,650,378	1,264,686	4,915,064	-
Restricted	447,811	-	447,811	-
Unrestricted	835,729	(487,705)	348,024	-
Total net assets	<u>\$ 4,933,918</u>	<u>\$ 776,981</u>	<u>\$ 5,710,899</u>	<u>\$ -</u>

City of Melvindale, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2007

	Enterprise - Water and Sewer Fund	Enterprise - Ice Arena Fund	Total Enterprise Funds	Internal Service Fund - Health Care
Operating Revenue				
Sale of water	\$ 1,476,678	\$ -	\$ 1,476,678	\$ -
Sewage disposal charges	1,472,574	-	1,472,574	-
Charges for services and other	326,800	721,275	1,048,075	1,733,918
Total operating revenue	3,276,052	721,275	3,997,327	1,733,918
Operating Expenses				
Cost of water purchased	407,762	-	407,762	-
Cost of sewage treatment	864,857	-	864,857	-
Operation and maintenance	543,290	251,289	794,579	-
Billing and administrative costs	607,355	181,069	788,424	-
Depreciation and amortization	304,568	156,425	460,993	-
Employee insurance	-	-	-	1,733,918
Total operating expenses	2,727,832	588,783	3,316,615	1,733,918
Operating Income	548,220	132,492	680,712	-
Nonoperating Revenue (Expense)				
Investment income	30,316	-	30,316	-
Interest expense	(229,691)	(98,518)	(328,209)	-
Loss on disposal of fixed assets	-	(720)	(720)	-
Total nonoperating expense	(199,375)	(99,238)	(298,613)	-
Change in Net Assets	348,845	33,254	382,099	-
Net Assets - Beginning of year	4,585,073	743,727	5,328,800	-
Net Assets - End of year	<u>\$ 4,933,918</u>	<u>\$ 776,981</u>	<u>\$ 5,710,899</u>	<u>\$ -</u>

City of Melvindale, Michigan

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2007

	Enterprise - Water and Sewer Fund	Enterprise - Ice Arena Fund	Internal Service Fund - Health Care
Cash Flows from Operating Activities			
Receipts from customers	\$ 2,931,639	\$ 724,915	\$ 1,733,918
Payments to suppliers	(1,491,901)	(282,418)	-
Payments to employees	(1,046,106)	(177,640)	-
Internal activity - Payments to other funds	(82,967)	(22,494)	(33,503)
Claims paid	-	-	(1,733,918)
Other receipts	364,343	-	41,873
Net cash provided by operating activities	675,008	242,363	8,370
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(81,421)	-	-
Principal and interest paid on capital debt	(587,395)	(237,268)	-
Net cash used in capital and related financing activities	(668,816)	(237,268)	-
Cash Flows from Investing Activities - Interest received on investments	30,316	-	-
Net Increase in Cash and Cash Equivalents	36,508	5,095	8,370
Cash and Cash Equivalents - Beginning of year	1,066,196	594	590
Cash and Cash Equivalents - End of year	\$ 1,102,704	\$ 5,689	\$ 8,960
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 254,893	\$ 5,689	\$ 8,960
Restricted investments (Note 8)	847,811	-	-
Total cash and cash equivalents	\$ 1,102,704	\$ 5,689	\$ 8,960
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 548,220	\$ 132,492	\$ -
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	304,568	156,425	-
Changes in assets and liabilities:			
Receivables	13,980	3,640	-
Due from other funds	207,843	-	(33,503)
Other assets	5,944	-	-
Accounts payable	(219,277)	(31,129)	41,873
Due to other funds	(192,423)	(22,494)	-
Accrued and other liabilities	6,153	3,429	-
Net cash provided by operating activities	\$ 675,008	\$ 242,363	\$ 8,370

City of Melvindale, Michigan

Fiduciary Funds Statement of Net Assets December 31, 2007

	Trust Fund - Policemen and Firemen Retirement System I and Healthcare	Agency Fund - Tax Collection
Assets		
Cash and cash equivalents	\$ 320,929	\$ -
Investments:		
Corporate bonds	479,875	-
Common and preferred stock	2,615,599	-
Bank investment pool funds and mutual funds	2,860,502	1,219,708
Life insurance policies	2,493,844	-
Forwards and futures contracts	36,846	-
Foreign stock investment pools	426,621	-
Deposits	196,232	-
Taxes receivable	1,093,445	-
Total assets	10,523,893	<u><u>\$ 1,219,708</u></u>
Liabilities		
Accounts payable	8,942	\$ -
Due to other governmental units	-	1,219,708
Total liabilities	8,942	<u><u>\$ 1,219,708</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 10,514,951</u></u>	

City of Melvindale, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Pension and Other Employee Benefit Trust Funds Year Ended December 31, 2007

Additions

Investment income:	
Interest and dividends	\$ 273,240
Net decrease in cash surrender value of life insurance policies	(14,991)
Net life insurance proceeds	301,166
Realized and unrealized loss on investments	(63,646)
Less investment expenses	<u>(87,581)</u>
Net investment income	408,188
Property tax collections	<u>1,609,473</u>
Total additions	2,017,661

Deductions - Benefit payments	<u>1,366,051</u>
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Net Increase in Net Assets Held in Trust	651,610
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Net Assets Held in Trust for Pension and Other Employee Benefits

Beginning of year	<u>9,863,341</u>
End of year	<u><u>\$ 10,514,951</u></u>

City of Melvindale, Michigan

Component Units Statement of Net Assets December 31, 2007

	Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
Assets				
Cash and investments	\$ 1,036,790	\$ 37,851	\$ 78,891	\$ 1,153,532
Receivables	38,228	-	-	38,228
Receivable from primary government	-	-	110,216	110,216
Inventories	8,103	-	33,118	41,221
Capital assets	<u>6,026,278</u>	<u>-</u>	<u>-</u>	<u>6,026,278</u>
Total assets	7,109,399	37,851	222,225	7,369,475
Liabilities				
Accounts payable	18,135	1,681	16,977	36,793
Accrued and other liabilities	<u>146,917</u>	<u>-</u>	<u>-</u>	<u>146,917</u>
Total liabilities	<u>165,052</u>	<u>1,681</u>	<u>16,977</u>	<u>183,710</u>
Net Assets				
Investment in capital assets - Net of related debt	6,026,278	-	-	6,026,278
Unrestricted	<u>918,069</u>	<u>36,170</u>	<u>205,248</u>	<u>1,159,487</u>
Total net assets	<u>\$ 6,944,347</u>	<u>\$ 36,170</u>	<u>\$ 205,248</u>	<u>\$ 7,185,765</u>

City of Melvindale, Michigan

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Housing Commission - Senior citizen housing project	\$ 1,932,839	\$ 488,400	\$ 1,146,263	\$ 393,917
Economic Development Corporation - Public works	12,983	1,645	-	-
Downtown Development Authority: Public works	108,193	-	-	-
Contribution to City	<u>170,678</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Downtown Development Authority	<u>278,871</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 2,224,693</u>	<u>\$ 490,045</u>	<u>\$ 1,146,263</u>	<u>\$ 393,917</u>

General Revenues

Capture taxes

Interest and other

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Component Units
Statement of Activities
Year Ended December 31, 2007

Net (Expense) Revenue and Changes in Net Assets			
Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
\$ 95,741	\$ -	\$ -	\$ 95,741
-	(11,338)	-	(11,338)
-	-	(108,193)	(108,193)
-	-	(170,678)	(170,678)
-	-	(278,871)	(278,871)
95,741	(11,338)	(278,871)	(194,468)
-	-	180,719	180,719
45,257	2,008	3,998	51,263
45,257	2,008	184,717	231,982
140,998	(9,330)	(94,154)	37,514
6,803,349	45,500	299,402	7,148,251
\$ 6,944,347	\$ 36,170	\$ 205,248	\$ 7,185,765

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Melvindale, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Melvindale, Michigan:

Reporting Entity

The City is governed by an elected six-member council and an elected mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are separate legal entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units

The Policemen and Firemen Retirement System I Pension and Healthcare Funds have been blended into the City's financial statements. The Policemen and Firemen Retirement System I is governed by a three-member board that consists of a combination of participants in the systems and individuals chosen by the mayor and City Council. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

The City of Melvindale Building Authority was formed for the purpose of constructing public facilities financed through the issuance of Building Authority bonds as provided by Public Act 31 of 1948. The Building Authority Board is appointed by the mayor. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct certain City public buildings.

Discretely Presented Component Units

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district and to promote economic growth within the downtown district. The DDA's governing body, which consists of 11 individuals, is appointed by the mayor, subject to approval of the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA's administrative offices are located at 3100 Oakwood Boulevard, Melvindale, Michigan.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City. The EDC's governing body, which consists of nine individuals, is appointed by the mayor, subject to approval of the City Council. The EDC's administrative offices are located at 3100 Oakwood Boulevard, Melvindale, Michigan.

The Housing Commission was created to provide public housing to senior citizens and other residents of the City. The Housing Commission also administers the federally funded housing certificate program. The Housing Commission's governing body, which consists of five individuals, is selected by the mayor. The Housing Commission is located at 3501 Oakwood Boulevard, Melvindale, Michigan.

The Brownfield Redevelopment Authority was created, pursuant to Public Act 381 of 1996, to promote revitalization of environmentally distressed areas within the City limits. The Brownfield Redevelopment Authority is funded primarily by property tax revenue captures. The Brownfield Redevelopment Authority is governed by a board that is appointed by the mayor and confirmed by the City Council. No activity related to tax revenue capture occurred during the year ended December 31, 2007.

Separate financial statements for the above discretely presented component units are not prepared.

Jointly Governed Organizations

Jointly governed organizations are discussed in Note 14.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental fund:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the activities of the water distribution and sewage collection systems.

Ice Arena Fund - The Ice Arena Fund accounts for the activity of the John Kessey Ice Arena, which primarily is the revenue related to charges for services and rentals along with the expenses of maintaining and operating the John Kessey Ice Arena.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City. The City's Internal Service Fund is used to account for current healthcare coverage provided for City employees.

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the City's defined benefit pension plan, the Policemen and Firemen Retirement System I fund and the City's retiree health care for this group (Policemen and Firemen Retiree Health Care Fund). These funds accumulate resources for pension benefit and healthcare payments to qualified employees.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City's Agency Fund is the Tax Collection Fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and Ice Arena function of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) and the cost of infrastructure as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices, except for the life insurance policies, which are stated at cash surrender value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Taxes - Properties are assessed as of December 31 of each year. The related taxes are billed on July 1 and become a lien on December 1 of the following year, at which time penalties and interest are assessed. The judgment levy for the Policemen and Firemen Pension System I is levied on December 1 each year.

The City's 2007 tax is levied and collectible on July 1, 2007, and is recognized as revenue in the year ended December 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the City totaled \$233,667,666, on which taxes levied consisted of 19.4081 mills for operating purposes, 2.9110 mills for garbage and rubbish services, 0.9701 mills for library services, and 7 mills for the Policemen and Firemen Pension System I judgment levy. This resulted in approximately \$5,200,000 for operating and garbage collection purposes, \$227,000 for library purposes, and \$1,600,000 for the Policemen and Firemen Pension System I judgment levy. These amounts are recognized in the respective General Fund, Special Revenue Fund, and Fiduciary Fund financial statements as tax revenue.

The City annually sells its delinquent real property taxes to the County, which then becomes responsible for collecting the taxes and taking any uncollected tax parcels through the tax reversion process. The County purchases these taxes at 100 percent of face value, and in return the County is allowed to retain all interest and penalties it collects. The estimated present value of the future delinquent collections to the City is less than the face value that has been received, because of the time value of money; however, the net present value to the County is greater than this amount, because of the statutory provision that allows the County to retain all penalties and interest. During the current year, the City received \$623,498 from this sale. At the end of the tax reversion process (approximately three years), the County charges the City back for any uncollected taxes. Historically, this amount has not been significant.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis, which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Real estate inventories of the component units are valued at the lower of cost (specific identification including demolition cost) or market.

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The revenue bonds of the Enterprise Fund require amounts to be set aside for debt service. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20 to 25 years
Water and sewer facilities	20 to 45 years
Buildings and improvements	20 to 50 years
Machinery and equipment	2 to 35 years
Furniture and fixtures	2 to 15 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall is as follows:

Shortfall at January 1, 2007			\$ (482,426)
Current year building permit revenue			223,985
Related expenses:			
Direct costs	\$ 231,930		
Estimated indirect costs	51,733	283,663	
Current year shortfall			<u>(59,678)</u>
Cumulative shortfall at December 31, 2007			<u>\$ (542,104)</u>

Fund Deficits - The City has a deficit in the General Fund, Community Development Block Grant Fund, and the Ice Arena Fund at December 31, 2007. The deficit in the Community Development Block Grant Fund is due to revenue that was not received within 60 days of year end. The receivable for these monies was recorded along with the corresponding deferred revenue at December 31, 2007. The City has a deficit elimination plan in place for the General Fund and the Ice Arena Fund.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Policemen and Firemen Retirement Pension System I Trust Fund and the Policemen and Firemen Retiree Healthcare Trust Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated six banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the items described above, except for repurchase agreements and obligations of the State of Michigan or its political subdivisions. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$726,269 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. In addition, the City's component units had no bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the City's pension funds had \$426,621 invested in U.S. Treasury securities with an average maturity of less than one year. In addition, the City's pension funds had \$190,000 invested in corporate bonds with an average maturity of 22 years.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
General government - Bank investment pools	\$ 2,759,732	Not rated	N/A
General government - Pension funds:			
Bank investment pools	1,724,091	Not rated	N/A
Bank investment pools	113,638	Aaa	Moody's
Mutual funds - Bonds	437,062	Not rated	N/A
Corporate bonds	100,000	Not rated	N/A
Corporate bonds	90,000	AAA	S&P
Life insurance contracts	2,493,844	AA	S&P
Component units - Bank investment pools	1,035,238	Not rated	N/A

Concentration of Credit Risk

The City's Policemen and Firemen Retirement System places no limit on the amount the City may invest in any one issuer. More than 5 percent of the City's investments are in life insurance contracts; these investments are 27 percent of the pension fund investments.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2007

Note 3 - Deposits and Investments (Continued)

Other Investments

The Policemen and Firemen Retirement System I has \$463,467 invested in a commodity investment pool. The pool engages in the speculative trading of futures contracts, foreign currency contracts, and options on forward currency contracts. The fund has not been rated.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Governmental Activities - Unavailable
Delinquent personal property taxes	\$ 411,339
Delinquent real property taxes	475,142
Grants receivable	52,219
State-shared revenue receivable	291,621
Total	<u>\$ 1,230,321</u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance January 1, 2007	Additions	Disposals and Adjustments	Balance December 31, 2007
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 824,597	\$ -	\$ 17,056	\$ 807,541
Capital assets being depreciated:				
Roads and sidewalks	3,629,661	480,568	9,251	4,100,978
Buildings and improvements	3,231,858	48,440	-	3,280,298
Machinery and equipment	4,911,225	184,342	46,835	5,048,732
Subtotal	11,772,744	713,350	56,086	12,430,008
Accumulated depreciation:				
Roads and sidewalks	1,869,553	108,612	7,401	1,970,764
Buildings and improvements	1,290,660	70,093	-	1,360,753
Machinery and equipment	1,924,563	236,942	37,677	2,123,828
Subtotal	5,084,776	415,647	45,078	5,455,345
Net capital assets being depreciated	6,687,968	297,703	11,008	6,974,663
Net capital assets	\$ 7,512,565	\$ 297,703	\$ 28,064	\$ 7,782,204
Business-type Activities				
Capital assets being depreciated:				
Water and sewer facilities	\$ 6,136,690	\$ 52,085	\$ -	\$ 6,188,775
Furniture and fixtures	361,242	-	900	360,342
Machinery and equipment	1,016,612	8,425	-	1,025,037
Building and improvements	9,231,898	20,916	-	9,252,814
Subtotal	16,746,442	81,426	900	16,826,968
Accumulated depreciation:				
Mains - Water	1,933,030	149,420	-	2,082,450
Furniture and fixtures	279,721	34,809	180	314,350
Machinery and equipment	863,047	30,402	-	893,449
Buildings	1,832,059	246,362	-	2,078,421
Subtotal	4,907,857	460,993	180	5,368,670
Net capital assets being depreciated	11,838,585	(379,567)	720	11,458,298
Net capital assets	\$ 11,838,585	\$ (379,567)	\$ 720	\$ 11,458,298

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets (Continued)

Capital asset activity for the City of Melvindale's component units for the year was as follows:

	Balance January 1, 2007	Additions	Disposals and Adjustments	Balance December 31, 2007
Housing Commission				
Capital assets not being depreciated -				
Land	\$ 200,000	\$ -	\$ -	\$ 200,000
Capital assets being depreciated:				
Machinery and equipment	878,325	21,257	-	899,582
Building and improvements	10,001,769	297,911	18,667	10,281,013
Subtotal	10,880,094	319,168	18,667	11,180,595
Accumulated depreciation:				
Machinery and equipment	597,211	45,482	-	642,693
Building and improvements	4,427,822	302,469	18,667	4,711,624
Subtotal	5,025,033	347,951	18,667	5,354,317
Net capital assets being depreciated	5,855,061	(28,783)	-	5,826,278
Net capital assets	<u>\$ 6,055,061</u>	<u>\$ (28,783)</u>	<u>\$ -</u>	<u>\$ 6,026,278</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 32,541
Public safety	170,309
Public works	161,429
Health and welfare	26,418
Recreation and culture	24,950
Total governmental activities	<u>\$ 415,647</u>
Business-type activities:	
Water and sewer	\$ 304,568
Ice arena	156,425
Total business-type activities	<u>\$ 460,993</u>
Component units - Housing Commission	<u>\$ 347,951</u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2007

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund (major fund)	Water and Sewer Fund (major fund)	\$ 598,710
	Ice Arena Fund (major fund)	50,000
	Nonmajor governmental funds	<u>185,783</u>
	Total General Fund	834,493
Water and Sewer Fund (major fund)	Ice Arena Fund (major fund)	37
	Nonmajor governmental funds	<u>209</u>
	Total Water and Sewer Fund	246
Nonmajor governmental funds	General Fund (major fund)	176,698
	Nonmajor governmental funds	<u>102,692</u>
	Total nonmajor governmental funds	279,390
Internal Service Fund	General Fund (major fund)	486,830
	Water and Sewer Fund (major fund)	<u>112,754</u>
	Total Internal Service Fund	<u>599,584</u>
	Total	<u><u>\$ 1,498,058</u></u>
Advances from/to Other Funds		
General Fund (major fund)	Ice Arena Fund (major fund)	\$ 153,173
Water and Sewer Fund (major fund)	Ice Arena Fund (major fund)	<u>291,540</u>
	Total	<u><u>\$ 444,713</u></u>
Due to/from Primary Government and Component Units		
Downtown Development Authority	Primary government - General Fund	\$ 105,625
Downtown Development Authority	Primary government - Other nonmajor funds	<u>4,591</u>
	Total Downtown Development Authority	<u><u>\$ 110,216</u></u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfers Out		
	Nonmajor		
	Governmental		
	General Fund	Funds	Total
Transfers in - Nonmajor governmental funds	\$ 117,303	\$ 339,325	\$ 456,628

The transfer from the General Fund to the Debt Service Fund of \$117,303 represents the movement of resources to be used to service general obligation debt. The Major Streets Fund transferred \$192,777 to the Local Street Fund where the funds were then spent. The Community Development Block Grant Fund and Drug Forfeiture Fund transferred \$114,735 and \$31,813, respectively, to the Debt Service Fund for debt service payments.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2007

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
2000 Building Authority Bonds	7.00%	\$50,000 - \$90,000	\$ 610,000	\$ -	\$ (50,000)	\$ 560,000	\$ 50,000
Amount of issue: \$800,000							
Maturing through 2015							
2003 Building Authority Refunding Bonds	2.25% - 4.40%	\$47,500 - \$77,500	933,750	-	(47,500)	886,250	47,500
Amount of issue: \$1,005,000							
Maturing through 2022							
Fire truck agreement:	4.55%	\$17,000 - \$28,000	184,229	-	(17,000)	167,229	22,000
Amount of issue: \$215,365							
Maturing through: 2014							
Police cars:	4.73%	\$5,151 - \$29,640	64,167	-	(29,640)	34,527	29,640
Amount of issue: \$89,200							
Maturing through: 2009							
Police computer system:	4.98%	\$32,141 - \$33,779	98,184	-	(31,829)	66,355	33,779
Amount of issue: \$101,000							
Maturing through: 2009							
Total governmental activities			<u>\$ 1,890,330</u>	<u>\$ -</u>	<u>\$ (175,969)</u>	<u>\$ 1,714,361</u>	<u>\$ 182,919</u>
Business-type Activities							
1996 Water Supply and Sewage Disposal							
System Revenue Refunding Bonds:	4.95% - 5.35%	\$215,000 - \$300,000	\$ 1,290,000	\$ -	\$ (215,000)	\$ 1,075,000	\$ 235,000
Amount of issue: \$2,695,000							
Maturing through 2011							
1997 Water Supply and Sewage Disposal							
System Revenue Bonds:	5.20% - 5.70%	\$75,000 - \$150,000	1,175,000	-	(75,000)	1,100,000	75,000
Amount of issue: \$1,500,000							
Maturing through 2016							
1998 Water Supply and Sewage Disposal							
System Revenue Bonds:	4.40% - 5.10%	\$25,000 - \$100,000	725,000	-	(25,000)	700,000	25,000
Amount of issue: \$900,000							
Maturing through 2018							
1999 Water Supply and Sewage Disposal							
System Revenue Bonds:	2.50%	\$50,000 - \$70,000	775,000	-	(50,000)	725,000	50,000
Amount of issue: \$1,100,000							
Maturing through 2019							
2001 Water Supply and Sewage Disposal							
System Revenue Bonds:	5.00% - 5.50%	\$15,000 - \$100,000	950,000	-	(15,000)	935,000	15,000
Amount of issue: \$995,000							
Maturing through 2021							
2003 Building Authority Refunding Bonds:	2.25% - 4.40%	\$142,500 - \$232,500	2,686,250	-	(142,500)	2,543,750	142,500
Amount of issue: \$2,900,000							
Maturing through 2022							
Subtotal business-type activities			<u>7,601,250</u>	<u>-</u>	<u>(522,500)</u>	<u>7,078,750</u>	<u>542,500</u>
Less deferred charge on refunding	N/A	N/A	<u>(161,567)</u>	<u>-</u>	<u>26,051</u>	<u>(135,516)</u>	<u>-</u>
Total business-type activities			<u>\$ 7,439,683</u>	<u>\$ -</u>	<u>\$ (496,449)</u>	<u>\$ 6,943,234</u>	<u>\$ 542,500</u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2007

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations (excluding amortization of bond issuance costs and discounts) are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 182,919	\$ 66,936	\$ 249,855	\$ 542,500	\$ 305,198	\$ 847,698
2009	172,651	60,289	232,940	612,500	281,107	893,607
2010	135,250	54,568	189,818	628,750	253,524	882,274
2011	152,500	54,140	206,640	667,500	216,278	883,778
2012	158,500	47,064	205,564	492,500	201,066	693,566
2013-2017	631,115	124,459	755,574	2,772,500	645,201	3,417,701
2018-2022	203,750	29,783	233,533	1,362,500	135,438	1,497,938
2023-2024	77,676	2,145	79,821	-	2,625	2,625
Total	<u>\$ 1,714,361</u>	<u>\$ 439,384</u>	<u>\$ 2,153,745</u>	<u>\$ 7,078,750</u>	<u>\$ 2,040,437</u>	<u>\$ 9,119,187</u>

The City has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of various mains, water and sewer lines, etc. The bonds are payable solely from the net revenues of the water and sewer system. The remaining amount of principal and interest to be paid on the bonds is \$5,472,730. During the current year, net revenues of the system were \$988,043 compared to the annual debt requirements of \$608,266.

The revenue bond ordinance contains certain covenants and restrictions that, among other matters, relate to the following:

- Establishment of rates to customers of the system that, together with other system income, are reasonably expected to produce annual net revenue sufficient to provide for 125 percent of the annual debt service requirements on the bonds (135 percent in years when new debt is issued) and to provide for other expenditures of the system as long as any bonds are outstanding.
- Periodic transfers of net revenue to a fund segregated for debt service payments so that the balance in the fund is equal to the lesser of the maximum annual debt service requirements on the bonds for any future year or 10 percent of the principal amounts on the bonds. Additionally, each month a portion of the next principal and interest payment on each revenue bond must be transferred to a separate fund segregated to pay the next debt service payment.
- Adoption of and adherence to budgeted expenses

Note 7 - Long-term Debt (Continued)

- Segregation of Water and Sewer Fund revenue
- Segregation of assets for construction of improvements to the system
- Prohibited sale, lease, or other disposition of all or any substantial part of the system

Defeased Debt - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At December 31, 2007, \$5,865,000 of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

The balance of the restricted asset account is \$847,811, restricted for debt payments on revenue bonds.

In addition, net assets have been restricted for \$447,811, which represents the annual debt service requirement, less the current portion of Water and Sewer Fund long-term debt.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for all claims arising from the various risks noted above except for claims related to medical benefits. The City is partially uninsured for claims arising from medical benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City assumes claim costs for employees' healthcare claims within certain limits. The City has purchased excess insurance, both for specific occurrences in excess of \$70,000 per individual up to a maximum of \$930,000 per individual and for aggregate claims exceeding approximately \$2,049,000 occurring within the insurance policy period from November 1, 2007 through October 31, 2008. The sum of the City's aggregate loss funds (which represents the amount before which aggregate excess insurance will pay for any claims) less claims incurred through December 31, 2007 totals approximately \$1,787,000.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2007

Note 9 - Risk Management (Continued)

The City estimates the liability for healthcare claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2007	2006
Unpaid claims - Beginning of year	\$ 373,016	\$ 370,755
Incurred claims (including claims incurred but not reported)	1,723,795	1,506,926
Claim payments	<u>(1,681,922)</u>	<u>(1,504,665)</u>
Unpaid claims - End of year	<u>\$ 414,889</u>	<u>\$ 373,016</u>

Note 10 - Defined Benefit Pension Plan - Michigan Municipal Employees' Retirement System

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers certain general, police, and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The City has assumed the responsibility to contribute an annual amount as determined by the actuary on behalf of general, police, and fire employees.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2007

Note 10 - Defined Benefit Pension Plan - Michigan Municipal Employees' Retirement System (Continued)

Annual Pension Cost - For the year ended December 31, 2007, the City's annual pension cost was \$991,994. The City contributed 100 percent of the annual pension cost as determined through an actuarial valuation as of December 31, 2006, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return and (b) projected salary increases of 4.5 percent to 12.90 percent per year. Item (b) includes an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a 10-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 25 years.

Trend information is as follows for the years ended December 31:

	2005	2006	2007
Annual pension costs (APC)	\$ 793,698	\$ 898,747	\$ 991,994
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 14,700,396	\$ 15,557,229	\$ 16,507,292
Actuarial accrued liability (AAL) (entry age)	\$ 23,607,292	\$ 25,925,577	\$ 28,736,546
Unfunded AAL (UAAL)	\$ 8,906,896	\$ 10,368,348	\$ 12,229,254
Funded ratio	62.27%	60.00%	57.44%
Covered payroll	\$ 4,086,856	\$ 3,780,437	\$ 3,816,093
UAAL as a percentage of covered payroll	217.94%	274.26%	320.47%

Note 11 - Retirement Plan - Policemen and Firemen Retirement System I

Plan Description - The Policemen and Firemen Retirement System I is a single-employer defined benefit pension plan that is administered by the City of Melvindale Police and Fire Employees' Retirement System I. This plan covers policemen and firemen hired on or before April 6, 1965. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2006, the date of the most recent actuarial valuation, membership consisted of 25 retirees and beneficiaries currently receiving benefits. There are no longer any active employees who participate in the system. The plan does not issue a separate financial report.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2007

Note 11 - Retirement Plan - Policemen and Firemen Retirement System I (Continued)

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by a court order. Until 1987, the system paid pensions that were currently payable and did not fund for future pension expense. As discussed in Note 15, beginning in 1987, the City's contributions have been based on amounts collected through a court-ordered levy. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost - For the year ended December 31, 2007, the City's annual pension cost was \$266,638 for the plan. The employer contributions for the system were based on taxes collected through a court-ordered property tax levy. Significant actuarial assumptions used include (a) a 6.0 percent investment rate of return and (b) an inflation rate of up to 5 percent. The actuarial value of assets was determined using the market value of the assets. The unfunded actuarial liability is being amortized by level dollar contributions over a period of nine future years.

Reserves - As of December 31, 2007, all of the plan's assets are reserved for retired benefit payments. The fair value of the assets at December 31, 2007 is \$8,325,415.

Trend information is as follows for the years ended December 31:

	2005	2006	2007
Annual pension costs (APC)	\$ 1,520,300	\$ 202,426	\$ 266,638
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 12 - Subsequent Events

Tax Anticipation Notes - On January 4, 2008, the City issued \$2,000,000 of tax anticipation notes, bearing interest at 4.25 percent. The proceeds of the notes are to be used to finance operations of the City. The notes are to be repaid in September 2007 from collections of the July 1, 2007 property tax levy.

Note 12 - Subsequent Events (Continued)

Healthcare Reserve - In April 2008, the Policemen and Firemen Retirement System I approved prefunding of the retiree healthcare costs of \$840,000 within the City's Health Care Internal Service Fund with an interest rate of 2.5 percent to be renegotiated annually.

Note 13 - Other Postemployment Benefits

Policemen and Firemen Retiree Healthcare Plan

The City provides retiree healthcare benefits to eligible employees and their spouses through the Policemen and Firemen Retiree Healthcare Plan. Benefits are provided to policemen and firemen hired on or before April 6, 1965. The plan is comprised of 25 retired employees and beneficiaries currently receiving benefits. There are no longer any active employees who participate in the system.

This is a single employer defined benefit plan administered by the City of Melvindale. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement.

In the current year, the City paid postemployment healthcare claims of \$275,369, plus it contributed \$1,067,466 into a prefunded retiree healthcare fund, which is reported in this financial statement as the Policemen and Firemen Retiree Healthcare Trust Fund. The funding progress of the plan as of the most recent valuation date is as follows:

Actuarial value of assets	\$ 1,111,948
Actuarial accrued liability (AAL)	\$ 4,519,966
Unfunded AAL (UAAL)	\$ 3,408,018
Funded ratio	24.60%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 13 - Other Postemployment Benefits (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2006 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 4 percent after 10 years. Both rates included a 5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a nine-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period was nine years.

Other Eligible Employees

The City has elected to provide postemployment health benefits to certain full-time employees upon retirement, in accordance with labor contracts. Currently, 72 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment life insurance benefits are recognized as the insurance premiums become due.

Because the City is partially self-insured for health care, expenditures are recognized as claims are incurred and excess insurance premiums become due. The City charges the Water and Sewer Fund for actual claims incurred. The Pension Fund is billed quarterly for actual claims incurred. During the year, the total cost to the City of these benefits was approximately \$777,000. Of this amount, the Policemen and Firemen Retirement System I was billed approximately \$275,000, the Water and Sewer Fund was billed approximately \$40,000, and the General Fund paid approximately \$462,000.

Note 13 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Note 14 - Joint Venture

The City is a member of the 24th District Court, which provides services to the City of Melvindale and the City of Allen Park. The City has a one-third interest in the 24th District Court.

The participating communities provide annual funding for its operations and receive a portion of fines and fees collected. During the current year, the City contributed approximately \$910,000 for its operations and received approximately \$1,164,000 in fines and forfeitures. The City has a nonmaterial equity interest in the 24th District Court at December 31, 2007. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments. Complete financial statements for the 24th District Court can be obtained from the administrative offices at 6515 Roosevelt Road, Allen Park, Michigan.

Note 15 - Pension Judgment Levy

In prior years, the City did not make contributions to the Policemen and Firemen Retirement System I as required by the Constitution of the State of Michigan. The City was sued by members of the system to require the City to begin funding the plan on an actuarial basis. In 1987, the court entered a judgment requiring the City to levy up to 10 mills per year on all taxable property within the City until the system has no unfunded liabilities as determined by an actuarial study. From 1987 through 2001, the City levied 10 mills for this purpose. During the year ended December 31, 2002, the Court approved an order reducing the levy to 7 mills. It is estimated that the amount remaining to be funded approximates \$1,867,000 at December 31, 2006, the date of the latest actuarial valuation. The unfunded present value of future retiree healthcare benefits of the Police and Fire Retirement System I approximates \$3.4 million at December 31, 2006, the date of most recent actuarial valuation.

Note 16 - Contingent Liabilities

The City has been named as a defendant in certain claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. The various proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability at December 31, 2007.

Required Supplemental Information

City of Melvindale, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2007

	Original and Amended Budget	Actual	Variance with Amended Budget
Revenues and Other Sources			
Property tax	\$ 4,803,577	\$ 5,319,617	\$ 516,040
State of Michigan	1,754,073	1,684,997	(69,076)
Other	3,244,411	3,184,281	(60,130)
Total revenues and other sources	<u>\$ 9,802,061</u>	<u>\$ 10,188,895</u>	<u>\$ 386,834</u>
Expenditures and Other Uses			
Council	\$ 18,900	\$ 17,958	\$ 942
District Court	925,000	910,190	14,810
Mayor	64,834	74,477	(9,643)
Controller	144,937	202,049	(57,112)
Election	19,900	20,481	(581)
Auditing	60,000	49,000	11,000
Corporation counsel	304,000	306,658	(2,658)
City clerk	109,545	131,935	(22,390)
Board of Review	2,250	1,500	750
Treasurer/Assessor	139,155	155,756	(16,601)
Data processing	107,700	106,683	1,017
Police	2,041,479	2,274,370	(232,891)
Fire	1,184,893	1,214,713	(29,820)
Mutual aid	12,300	11,887	413
Department of Public Works	578,206	587,315	(9,109)
Street lighting	200,000	189,875	10,125
Contributions to other funds	1,466,339	1,459,088	7,251
Refuse	615,960	591,824	24,136
Swimming pool	9,500	49,935	(40,435)
Senior citizens - Van program	49,400	57,185	(7,785)
Parks and recreation	40,100	140,463	(100,363)
Insurance	569,100	467,538	101,562
MERS	833,000	935,023	(102,023)
Miscellaneous	230,563	192,504	38,059
TAN interest	75,000	64,694	10,306
Total expenditures and other uses	<u>\$ 9,802,061</u>	<u>\$ 10,213,101</u>	<u>\$ (411,040)</u>

City of Melvindale, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress December 31, 2007

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<u>Policemen and Firemen Retirement System I</u>						
12/31/01	\$ 7,970,981	\$ 10,796,790	\$ 2,825,809	73.83	*	*
12/31/02	7,986,209	10,407,175	2,420,966	76.74	*	*
12/31/03	8,426,290	9,930,898	1,504,608	84.85	*	*
12/31/04	8,836,939	9,820,748	983,809	90.00	*	*
12/31/05	9,358,124	10,892,257	1,534,133	85.92	*	*
12/31/06	8,751,393	10,618,859	1,867,466	82.41	*	*

* For valuations dated after December 31, 1996, the System consists entirely of retirees and beneficiaries.

Schedule of Employer Contributions

Year Ended December 31	Annual Pension Costs	Percentage Contributed
2002	\$ 1,261,455	100.0
2003	1,232,730	100.0
2004	1,365,165	100.0
2005	1,520,300	100.0
2006	202,426	100.0
2007	266,638	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2006, the latest actuarial valuation, is as follows:

Policemen and Firemen Retirement System I

Actuarial cost method	No longer applicable - Retiree group only
Amortization method	Level dollar
Amortization period	9 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	6.0%
Postretirement cost of living adjustments	up to 5% per year

City of Melvindale, Michigan

Note to Required Supplemental Information

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers, proceeds from an installment loan, and reimbursements have been included in the "revenue" and/or "expenditure" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end. The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council.

The budget process is initiated in September, when the departments are given information and guidelines to assist them in formulating their budget requests. The department heads summarize the departmental appropriation requests and submit them to the finance director, on or before November 1. During the month of November, the finance director and city administrator review the appropriation requests, meet with the departments and the mayor, and put together the budget. The budget is submitted to the City Council on or before December 1. During the next two weeks, the City Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by a resolution no later than December 31.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis level.

The amount of encumbrances outstanding at December 31, 2007 has not been calculated. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Following is a reconciliation of the budget statement of the General Fund and other major funds to the operating statement:

	Budget Statement	Operating Transfers	Operating Statement
General Fund - Total revenue	\$ 10,188,895	\$ -	\$ 10,188,895
General Fund - Total expenditures	10,213,101	(117,303)	10,095,798

City of Melvindale, Michigan

Note to Required Supplemental Information

Note - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Melvindale, Michigan incurred expenditures that were significantly (over \$20,000) in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Controller	\$ 144,937	\$ 202,049
General Fund - City clerk	109,545	131,935
General Fund - Police	2,041,479	2,274,370
General Fund - Fire	1,184,893	1,214,713
Swimming pool	9,500	49,935
Parks and recreation	40,100	140,463
MERS	833,000	935,023

Expenditures for the controller exceeded budget as a result of the transition in the finance department during the year, which necessitated interim financial assistance. The expenditures in the city clerk department exceeded budget primarily due to higher printing costs than anticipated. Expenditures for police and fire exceeded budget mainly as a result of an increase in the amount of overtime in the current year over what was anticipated. In addition, the City's police department purchased equipment during the year, which was not originally anticipated. The parks and recreation expenditures exceeded budget primarily due to improvements to Deluca Field, which were substantially offset by grant revenue. The remaining variances were the result of higher than anticipated expenditures in the current year.

Other Supplemental Information

City of Melvindale, Michigan

	Special Revenue Funds				
	Major Roads	Local Roads	Library	Drug Forfeiture	Community Development Block Grant
Assets					
Cash and investments	\$ 362,109	\$ 91	\$ 83,748	\$ 47,235	\$ 150,934
Taxes receivable	-	-	45,363	-	-
Due from other funds	-	102,692	176,698	-	-
Due from other governmental units	58,089	24,030	-	-	14,833
Total assets	<u>\$ 420,198</u>	<u>\$ 126,813</u>	<u>\$ 305,809</u>	<u>\$ 47,235</u>	<u>\$ 165,767</u>
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable	\$ 117,696	\$ 41,882	\$ 120,534	\$ 5,379	\$ 30,894
Accrued and other liabilities	-	-	728	-	-
Due to other funds	135,523	53,332	209	-	99,620
Accounts payable to component units	-	-	4,591	-	-
Deferred revenue	-	-	36,331	-	52,219
Total liabilities	253,219	95,214	162,393	5,379	182,733
Fund Balances (Deficit)					
Reserved	-	-	-	41,856	-
Unreserved	166,979	31,599	143,416	-	(16,966)
Total fund balances (deficit)	166,979	31,599	143,416	41,856	(16,966)
Total liabilities and fund balances (deficit)	<u>\$ 420,198</u>	<u>\$ 126,813</u>	<u>\$ 305,809</u>	<u>\$ 47,235</u>	<u>\$ 165,767</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2007**

Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 644,117
-	45,363
-	279,390
-	96,952
<u>\$ -</u>	<u>\$ 1,065,822</u>
\$ -	\$ 316,385
-	728
-	288,684
-	4,591
-	88,550
-	698,938
-	41,856
-	325,028
-	366,884
<u>\$ -</u>	<u>\$ 1,065,822</u>

City of Melvindale, Michigan

	Special Revenue Funds				
	Major Roads	Local Roads	Library	Drug Forfeiture	Community Development Block Grant
Revenue					
Property taxes	\$ -	\$ -	\$ 218,201	\$ -	\$ -
Federal sources	-	-	-	12,899	171,970
State sources	385,513	159,508	-	-	-
Interest income	21,640	196	2,303	2,243	3,239
Other	-	-	1,511	64,862	-
Total revenue	407,153	159,704	222,015	80,004	175,209
Expenditures					
Current:					
Community maintenance and development	-	-	-	-	59,576
Public safety	-	-	-	71,180	-
Public works	454,879	323,041	-	-	-
Recreation and cultural	-	-	200,189	-	-
Debt service	-	-	-	-	-
Total expenditures	454,879	323,041	200,189	71,180	59,576
Excess of Revenue Over (Under)					
Expenditures	(47,726)	(163,337)	21,826	8,824	115,633
Other Financing Sources (Uses)					
Transfers in	-	192,777	-	-	-
Transfers out	(192,777)	-	-	(31,813)	(114,735)
Total other financing sources (uses)	(192,777)	192,777	-	(31,813)	(114,735)
Net Change in Fund Balances	(240,503)	29,440	21,826	(22,989)	898
Fund Balances (Deficit) - Beginning of year	407,482	2,159	121,590	64,845	(17,864)
Fund Balances (Deficit) - End of year	\$ 166,979	\$ 31,599	\$ 143,416	\$ 41,856	\$ (16,966)

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances (Deficit) - Nonmajor Governmental Funds
Year Ended December 31, 2007

Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 218,201
-	184,869
-	545,021
-	29,621
-	66,373
-	1,044,085
-	59,576
-	71,180
-	777,920
-	200,189
263,851	263,851
263,851	1,372,716
(263,851)	(328,631)
263,851	456,628
-	(339,325)
263,851	117,303
-	(211,328)
-	578,212
\$ -	\$ 366,884

City of Melvindale, Michigan

Other Supplemental Information Combining Statement of Net Assets Pension and Other Employee Benefit Trust Funds December 31, 2007

	Trust Fund - Policemen and Firemen Retirement System I	Trust Fund - Policemen and Firemen Retiree Health Care	Total
Assets			
Cash and cash equivalents	\$ 320,929	\$ -	\$ 320,929
Investments:			
Corporate bonds	479,875	-	479,875
Common and preferred stock	2,615,599	-	2,615,599
Bank investment pool funds and mutual funds	2,860,502	-	2,860,502
Life insurance policies	2,493,844	-	2,493,844
Foreign stock investment pools	36,846	-	36,846
U.S. government securities	426,621	-	426,621
Deposits	2,577	193,655	196,232
Taxes receivable	1,093,445	-	1,093,445
Due from other funds	-	1,995,881	1,995,881
	<hr/>	<hr/>	<hr/>
Total assets	10,330,238	2,189,536	12,519,774
Liabilities			
Accounts payable	8,942	-	8,942
Due to other funds	1,995,881	-	1,995,881
	<hr/>	<hr/>	<hr/>
Total liabilities	2,004,823	-	2,004,823
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 8,325,415</u>	<u>\$ 2,189,536</u>	<u>\$ 10,514,951</u>

City of Melvindale, Michigan

Other Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Pension and Other Employee Benefit Trust Funds Year Ended December 31, 2007

	Trust Fund - Policemen and Firemen Retirement System I	Trust Fund - Policemen and Firemen Retiree Health Care	Total
Additions			
Investment income:			
Interest and dividends	\$ 263,118	\$ 10,122	\$ 273,240
Net decrease in cash surrender value of life insurance policies	(14,991)	-	(14,991)
Realized gain on life insurance policies	301,166	-	301,166
Realized and unrealized loss on investments	(63,646)	-	(63,646)
Less investment expenses	(87,581)	-	(87,581)
Net investment income	398,066	10,122	408,188
Property tax collections	266,638	1,342,835	1,609,473
Total additions	664,704	1,352,957	2,017,661
Deductions - Benefit payments	1,090,682	275,369	1,366,051
Net (Decrease) Increase	(425,978)	1,077,588	651,610
Net Assets Held in Trust for Pension and Other Employee Benefits			
Beginning of year	8,751,393	1,111,948	9,863,341
End of year	<u>\$ 8,325,415</u>	<u>\$ 2,189,536</u>	<u>\$ 10,514,951</u>

City of Melvindale, Michigan

**Federal Awards
Supplemental Information
December 31, 2007**

City of Melvindale, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Melvindale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Melvindale, Michigan as of and for the year ended December 31, 2007, which collectively comprise the City of Melvindale, Michigan's basic financial statements, and have issued our report thereon dated June 2, 2008. Those basic financial statements are the responsibility of the management of the City of Melvindale, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Melvindale, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards and the reconciliation of basic financial statements federal revenue with the schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

June 2, 2008

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Melvindale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Melvindale, Michigan as of and for the year ended December 31, 2007, which collectively comprise the City of Melvindale, Michigan's basic financial statements, and have issued our report thereon dated June 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Melvindale, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Melvindale, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Melvindale, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiencies described in the accompanying schedule of findings and questioned costs as items 07-01, 07-03, 07-04, and 07-05 to be significant deficiencies in internal control over financial reporting.

To the Honorable Mayor and
Members of the City Council
City of Melvindale, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the deficiency described in the schedule of findings and questioned costs as item 07-01 constitutes a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Melvindale, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 07-02.

We noted certain other matters that we reported to the management of the City of Melvindale, Michigan in a separate letter dated June 2, 2008.

The City of Melvindale, Michigan's response to the significant deficiencies, material weakness, and finding relating to compliance and other matters identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

June 2, 2008

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Melvindale, Michigan

Compliance

We have audited the compliance of the City of Melvindale, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2007. The major federal programs of the City of Melvindale, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Melvindale, Michigan's management. Our responsibility is to express an opinion on the City of Melvindale, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Melvindale, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Melvindale, Michigan's compliance with those requirements.

In our opinion, the City of Melvindale, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

To the Honorable Mayor and
Members of the City Council
City of Melvindale, Michigan

Internal Control Over Compliance

The management of the City of Melvindale, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Melvindale, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

June 2, 2008

City of Melvindale, Michigan

Schedule of Expenditures of Federal Awards Year Ended December 31, 2007

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development:				
Community Development Block Grant passed through Wayne County, Michigan:				
Program year 2005	14.218	B-05-UC-26-0003	\$ 217,000	\$ 3,378
Program year 2006	14.218	B-06-UC-26-0003	161,460	50,804
Program year 2007	14.218	B-07-UC-26-0003	185,000	<u>118,315</u>
Total Community Development Block Grant				172,497
Shelter Plus Care Program passed through Wayne County, Michigan	14.238	MI28C50-2001	125,422	125,422
Public Housing Capital Fund MI28P04850104	14.872	N/A	211,898	55,491
Public Housing Capital Fund MI28P04850106	14.872	N/A	184,609	19,939
Public Housing Capital Fund MI28P04850105	14.872	N/A	203,170	110,090
Public Housing Capital Fund MI28P04850203	14.872	N/A	179,183	<u>96,479</u>
Total Public Housing Capital Fund				281,999
ROSS Resident Service Delivery Model Grant	14.870	MI048REL011A003	15,602	15,602
Performance Funding - Public Operating Subsidy	14.850	N/A	385,494	385,494
Section 8 - Low-income Housing Assistance Voucher Program	14.871	N/A	760,769	<u>760,769</u>
Total U.S. Department of Housing and Urban Development				1,741,783
U.S. Department of Agriculture - Emerald Ash Borer Grant passed through Michigan Department of Natural Resources	10.025	EAB 06-24	6,250	3,125
U.S. Department of Justice:				
Federal Eq. Sharing	16.unknown	N/A	12,899	12,681
COPS III Grant passed through Downriver Mutual Aid	16.710	2006CKWX0522	21,167	21,167
Byrne Memorial Grant passed through Michigan Department of State Police	16.579	70978-6-07Z	18,989	14,243
	16.579	70978-6-07Z	19,566	<u>2,881</u>
Total U.S. Department of Justice				<u>50,972</u>
Total federal awards				<u>\$ 1,795,880</u>

City of Melvindale, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended December 31, 2007

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 1,742,173
Less Community Development Block Grant revenue not received within 60 days in prior year and received in current year	(6,506)
Add Community Development Block Grant revenue not received within 60 days in the current year	7,033
Less Department of Housing and Urban Development Grant revenue expended in prior year and received in current year	(96,316)
Less Federal Eq. Sharing received but not spent in the current year	(218)
Add grant revenue recorded elsewhere on the financial statements	24,292
Add Shelter Plus Care grant revenue not reported in the City of Melvindale, Michigan's basic financial statements	<u>125,422</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 1,795,880</u>

City of Melvindale, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2007

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Melvindale, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA	Amount
	Number	Provided to Subrecipients
Shelter Plus Care	14.238	\$ 125,422

City of Melvindale, Michigan

Schedule of Findings and Questioned Costs Year Ended December 31, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☒ Yes ☐ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
14.850	Performance Funding - Public Operating Subsidy
14.871	Section 8 - Low-income Housing Assistance Voucher Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

City of Melvindale, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2007

Section II - Financial Statement Audit Findings

Reference Number	Findings
07-01	<p>Finding Type - Significant deficiency; Material weakness</p> <p>Criteria - Adjusting entries made during the audit indicative of control issues are considered significant deficiencies and/or material weaknesses, depending on the significance to the financial statements.</p> <p>Condition - The City of Melvindale, Michigan (the "City") did not perform timely reconciliations of certain account balances during the year, resulting in auditor journal entries being posted.</p> <p>Context - In connection with the City's financial statement audit for the year ended December 31, 2007, we noted that the City's personnel required assistance reconciling several accounts. Examples of these include, but are not limited to, property tax receivables, revenue and deferred revenue; interfunds; grants receivables, revenue, and deferred revenue; accounts payable subsidiary ledger to the general ledger; self-insurance expense allocations, including claims incurred but not reported; and stop-loss receivables. Journal entries were necessary to adjust these various accounts.</p> <p>Cause - The City experienced significant transition in the finance department during the year, resulting in certain internal control procedures not being followed on a consistent basis.</p> <p>Effect - Unresolved differences on account reconciliations could result in errors in the general ledger.</p> <p>Recommendation - The City should develop a process which would ensure that accounts are reconciled periodically and necessary journal entries are identified and recorded timely.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City experienced transition in the finance department in the current year, which led to certain reconciliation procedures not being performed timely. The City will ensure the reconciliations and related journal entries are performed timely going forward.</p>

City of Melvindale, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
07-02	<p>Finding Type - Noncompliance with laws and regulations</p> <p>Criteria - MCL 211.43 governs distributions by tax collecting units and establishes guidelines for the timing of payments of the taxes collected on behalf of other taxing units.</p> <p>Condition - In connection with the City's financial statement audit for the year ended December 31, 2007, we noted that the City did not remit property taxes to other taxing units in a timely manner.</p> <p>Context - Taxes collected for the December levy were not remitted within the 15-day time frame required by the State.</p> <p>Cause - The City did not have procedures in place to ensure timely remittance of property taxes to the proper taxing units.</p> <p>Effect - Tax collections not fully remitted to the proper governmental unit not distributed within the State's specified time frame are in violation of the state law governing the tax remittance process.</p> <p>Recommendation - The City should ensure that proper procedures are in place to identify tax remittance deadlines and process required distributions timely.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will ensure tax collections on behalf of other taxing units are distributed in accordance with state statutes.</p>

City of Melvindale, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
07-03	<p>Finding Type - Significant deficiency</p> <p>Criteria - To prevent and/or detect material misstatement, monthly bank reconciliations should be prepared and reviewed timely.</p> <p>Condition - Bank reconciliations were not prepared by an individual separate from the general ledger function and were not reviewed timely.</p> <p>Context - In connection with the City's financial statement audit for the year ended December 31, 2007, we noted that monthly bank reconciliations were being prepared in a timely manner, but for three months, we noted that no review of these reconciliations was performed. It was also noted that the individual who prepares the bank reconciliations also has access to the general ledger.</p> <p>Cause - The City experienced significant transition in the finance department during the year, resulting in certain internal control procedures not being followed on a consistent basis.</p> <p>Effect - Unresolved differences on account reconciliations could result in errors in the general ledger.</p> <p>Recommendation - The City should ensure bank reconciliations are reviewed and initialed by an appropriate individual to maintain proper segregation of duties.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City experienced transition in the finance department in the current year, which led to certain procedures not being performed timely. The City will ensure that bank reconciliations are reviewed timely going forward.</p>

City of Melvindale, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
07-04	<p>Finding Type - Significant deficiency</p> <p>Criteria - A complete and accurate schedule of expenditures of federal awards (SEFA) is necessary to record all program expenditures as required by federal regulations.</p> <p>Condition - In connection with the City's financial statement audit for the year ended December 31, 2007, we noted that the federal expenditures on the 2006 SEFA were understated.</p> <p>Context - The original SEFA provided by the City as part of the audit did not include a complete listing of capital grant expenditures. The 2006 expenditures relating to the grant were included in expenditures in the 2007 basic financial statements due to the fact that they were not identified as federal expenditures in 2006.</p> <p>Effect - As the City did not have appropriate procedures in place to report the correct amount of federal expenditures on the SEFA, there were several changes made to the expenditure amounts during the course of the audit to be compliant with federal regulations.</p> <p>Cause - The City did not have appropriate procedures in place to identify all federal expenditures throughout the year.</p> <p>Recommendation - We recommend that the City develop a procedure to identify federal expenditures throughout the year to ensure that a complete and accurate SEFA is available for the audit.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will implement a policy to ensure the SEFA is properly reconciled to the financial statements on an annual basis.</p>

City of Melvindale, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
07-05	<p>Finding Type - Significant deficiency</p> <p>Criteria - The duties to administer the information technology systems and the access to and responsibility for financial reporting should be segregated. A policy should exist to update user changes to the information technology system as changes occur, and the policy should include guidelines for password protection.</p> <p>Condition - In connection with the City's financial statement audit for the year ended December 31, 2007, we noted that the same person who administers the information technology system had access to and responsibility for financial reporting. In addition, the City did not have formal policies in place to ensure user changes/terminations were reflected timely in the system and that passwords are protected.</p> <p>Context - The City experienced turnover of several key personnel during the year, resulting in the responsibilities being divided over fewer staff. The City does not have a policy in place to update the information technology system for user changes or for guidelines over password protection.</p> <p>Effect - The assignment of additional duties to city staff resulted in staff performing incompatible duties. Additionally, the lack of formal policies to ensure user changes were reflected timely in the system and guidelines over password protection could result in a breach of information security.</p> <p>Cause - The City did not have adequate segregation of duties over information technology and the City did not have appropriate policies over information security.</p> <p>Recommendation - We recommend that the City review its policies and procedures related to controls over information technology to ensure adequate segregation of duties and safeguarding of information exist.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City is in the process of reviewing its controls over information technology and ensuring adequate measures are in place to safeguard information.</p>

City of Melvindale, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2007

Section III - Federal Program Audit Findings

None noted



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June 2, 2008

To the Honorable Mayor and
Members of the City Council
City of Melvindale
3100 Oakwood Boulevard
Melvindale, MI 48122

Dear Mayor and Council Members:

We have recently completed the audit of the financial statements of the City of Melvindale (the "City") for the year ended December 31, 2007. In addition to our audit report, we offer the following comments and recommendations for your consideration:

Financial Results

For the year ended December 31, 2007, the City's General Fund had expenditures in excess of revenues which increased its fund deficit by approximately \$24,000. At December 31, 2006, the General Fund reported a fund deficit of approximately \$193,000. During the year, the General Fund shortfall was projected to be significantly higher. The change in estimate resulted primarily from additional allocations of expenditures shared by other funds and certain one-time revenue sources, including proceeds from the sale of the Court building. General Fund expenditures increased approximately \$800,000 compared to 2006. The increase was primarily attributable to increased health care and pension costs of approximately \$425,000. As we have discussed previously, the City is self-insured relative to its healthcare benefits and actual results will vary annually based on experience. While we compliment the City on its continued practice of cost control and revenue enhancement, significant threats to the City's financial condition continue to exist, including the following:

- Continued uncertainty with the State's budget
- Impact of foreclosures and the real estate market in general on taxable values, and limited ability to add new development to the City's tax base, as well as a limited millage capacity remaining
- Dependence on Court revenue (net revenue declined approximately \$60,000 from 2006). In 2006, net revenue from the Court was \$312,055 compared to \$254,033 in 2007.
- Self-insured for health care (difficult to predict actual experience)
- Legacy costs (pension, retiree healthcare costs, etc.)

- Significant deferred capital needs
- Legislative changes impacting the City's budget (i.e., expiration of statutory revenue sharing, franchise fees, changes in personal property tax, etc.)

The unpredictable nature of the City's healthcare program directly impacts the City's financial condition. The City may want to investigate alternative arrangements (if available) to minimize the fluctuations of this significant cost. This may be difficult to accomplish in a cost effective way and will likely need to be done within the confines of current collective bargaining agreements.

While the City has been proactive in identifying and allocating shared costs to appropriate funds, the City continues to experience cash flow shortages throughout the year. These shortages are managed through the use of interfund borrowings to meet the City's daily cash flow needs. As a result, unsettled interfund balances created through the normal course of operations remain at December 31, 2007. The City will need to closely monitor its 2008 results and make appropriate budget amendments as circumstances change, to ensure projections are as accurate as possible. The City will likely be required to update its General Fund deficit elimination plan, as the General Fund remains in deficit. Updating the deficit elimination plan will provide the City another opportunity to review and confirm its approach to eliminate the remaining deficit.

In the required supplemental information section of the financial statements, there is a comparison of actual results to budgeted amounts. These variances are technically instances of noncompliance with the State of Michigan Budget Act. Given the significant need for accurate and timely information, we strongly encourage the City to consider creating and reviewing periodic budget to actual reports, which would highlight needed budget amendments throughout the year and aid in decision making, given the City's limited resources.

State-shared Revenue

The annual funding of revenue sharing continues to be static at best - which is down considerably compared to funding levels in 2000 and 2001. In 2000 and 2001, the City received approximately \$2.2 million in revenue sharing annually. The current funding level is about \$1.7 million - a decrease of approximately \$500,000 annually from historical funding levels. Of the approximately \$1.7 million in revenue sharing received, the City has approximately \$953,000 of statutory revenue sharing remaining.

The condition of the State's budget remains tenuous and that will impact the funding of revenue sharing going forward. The governor's budget that was introduced for the State's 2008/2009 fiscal year currently includes a small funding increase in revenue sharing. However, many open issues remain to be resolved with the revenue-sharing program, and the governor's 2008/2009 fiscal year budget occurred before issues with 2008 taxable valuations will be quantified (which could impact the State's School Aid Fund and indirectly the State's General Fund). There are a number of other factors that will impact revenue sharing including the following:

- **Future of County Participation in Statutory Revenue Sharing** - The question that remains is when the reserve funds established by counties several years ago as a result of the shift of the county tax levy date are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula** - Legislative action is required on this Act for appropriations to continue beyond 2008.
- **Changes to Michigan's Tax Structure** - Significant changes to the Michigan tax structure were made in 2007 (elimination of the single business tax, creation of a new Michigan business tax, passage and then subsequent repeal of the services tax, and addition of a surcharge to the Michigan business tax). Technical corrections on the new Michigan business tax continue to occur. The true financial impact on the State's budget of all these changes is hard to predict.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$953,000 at risk in its General Fund budget based on 2007 funding levels. In light of the current environment, we strongly encourage the City to be conservative when budgeting or projecting the revenue-sharing line item.

Water and Sewer Fund

Although the Water and Sewer Fund experienced a slight increase in net assets as a result of the increased rates that were enacted in November 2005, there are continued circumstances that negatively impact the operating results of the Fund. The total number of water units sold during 2007 continues to decline, representing a decrease of approximately 30 percent, from 1999 levels of approximately 67,000 units to current sales of approximately 47,000 units. In addition, the City's transfer to taxes for delinquent water bills continues to escalate with the struggling economy.

We continue to recommend that the City perform a thorough review of its infrastructure needs and develop a comprehensive cost of service study and long-term rate plan to ensure the working capital levels are replenished and monies are available for necessary capital spending. Such an analysis should also take into account the bond ordinance requirement that the City establish water and sewer rates on an annual basis that are reasonably expected to yield net revenues that will equal or exceed 125 percent of the aggregate debt service requirements for the forthcoming 12-month period (135 percent in years where the City plans to issue debt) and maintaining monies for the required bond reserve (approximately \$610,000).

Major and Local Street Funds

The state funding of major and local street activities has been declining in recent years. The City did undertake a street project in the current year and has received assistance on road and sidewalk construction from the Downtown Development Authority. At December 31, 2007, the City has remaining fund balance in the Major Street Fund of \$169,979 and \$31,599 in the Local Street Fund. The lack of monies available will restrict the City's ability to complete necessary road-related infrastructure projects.

Refuse Levy

Currently, the City's refuse levy for 2007 exceeded its related expenditures. However, since 1988, the City has accumulated expenditures in excess of revenue of approximately \$153,000. At some point in the near future, this excess may be depleted. We recommend that the City analyze its current refuse expenditures and evaluate whether there are other costs that can be allocated against the millage.

Retiree Healthcare Benefits and GASB No. 45

As discussed in past years, the City was required to implement GASB No. 43 at December 31, 2007 for its Policemen and Firemen Retiree Health Care Fund and will be required to implement GASB No. 45 for the year ending December 31, 2008 for all of its employees covered under retiree health care. GASB Nos. 43 and 45 require a governmental unit to measure its retiree healthcare liability through actuarial valuations that are to be performed at least biennially. These valuations compute an annual required contribution (ARC). While the City is accumulating monies to fund its obligation for retiree health care related to the employees covered under the Policemen and Firemen Retirement System I (approximately \$2.2 million at December 31, 2007), funds have not been set aside for the remaining City employees and retirees receiving this benefit. The City, like most other governmental units, has not been actuarially funding this liability like a defined benefit pension system.

As discussed in the notes to the financial statements, the unfunded actuarial accrued liability for retiree health care for the policemen and firemen retirees as of December 31, 2006 (the date of the first and most recent actuarial valuation) is approximately \$3.4 million (based on an interest rate of 4.5 percent). The City contributed another \$1 million to reduce that liability in 2007 from the pension judgment levy. The City is in the process of obtaining the valuation for the remaining employees receiving this benefit and the unfunded liability is expected to be significant. While the pronouncement does not require funding of this liability, it is anticipated that the State and bonding agencies will be monitoring the funding progress of the governmental units in reviewing financial information. The City's current budget does not provide for any "prefunding" of the retiree healthcare liability for most of its employees and retirees.

Several years ago, the City and the pension board of the City's policemen and firemen retirement system jointly established a healthcare reserve in the Self-insurance Fund to cover future healthcare costs of its members to provide for fluctuations in cost from year to year. The balance of the reserve at December 31, 2007 was approximately \$193,000, and was completely eliminated subsequent to year end. The pension board approved the reestablishment of the reserve in the amount of \$840,000 effective April 30, 2008.

Fund Deficits

In addition to the General Fund deficit at December 31, 2007, the City's Community Development Block Grant Fund and the Ice Arena Fund were in a deficit. The deficit in the Community Development Block Grant Fund was primarily due to the timing of reimbursement receipts from the County related to the Community Development Block Grant program. The ice arena continues to attempt to repay its outstanding interfund obligations. The financial position of the ice arena continues to be a challenge. Continued improvement of the working capital position of the Ice Arena Fund will be necessary to repay outstanding obligations. The State may require the City to file a deficit elimination plan for these funds.

New Audit Standards Effective for the Audit of the Year Ended December 31, 2007

Several additional audit standards required implementation during the City's financial statement audit. These new rules - formally called Statements on Auditing Standards Nos. 104 through 111 and known collectively as the new Risk Assessment Standards - significantly changed the procedures auditors must perform in all financial statement audits. These changes to auditing standards are a direct result of the major corporate scandals (i.e., Enron, Worldcom) that happened several years ago and are designed to strengthen the confidence of users in audited financial statements.

Under these new rules, we were required to:

- More thoroughly examine and evaluate the City's accounting processes and controls, including the overall control environment, key controls over significant transactions, the quality of internal oversight of the financial reporting process, and information technology general controls
- More thoroughly assess and document conditions in the City's systems and processes that create risks of material misstatement in their financial statements and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

Also, as you probably recall, we were required to implement Statement on Auditing Standards No. 112 last year, which lowered the threshold of items that auditors should consider bringing to your consideration.

As a result of the implementation of the new audit standards and our testing, we offer the following comments on the City's internal controls and accounting procedures for your consideration:

- We noted that blank checks are kept in the City's vault, which is open during the work day. We recommend that check signers be restricted access to blank checks by keeping them secured while the vault is open.
- Currently, adjustments to customers' water and sewer accounts are posted by the individual responsible for water and sewer billing. We recommend that someone who does not have the ability to post customer adjustments review a monthly report of the adjustments, to further enhance segregation of duties surrounding this function.
- When testing the accounts payable and cash disbursement process, we noted no approval process for the addition of new vendors to the accounts payable system. We recommend periodic supervisory reviews of new vendor reports printed from the accounts payable system to strengthen controls over cash disbursements.
- In 2006, the City created a spreadsheet reconciling the undistributed tax account by taxing authority. Due to the transition in the finance department in the current year, this reconciliation was not completed. We recommend that the City continue to maintain the reconciliation process to ensure timely distribution of taxes to other taxing authorities.

In addition to these comments and recommendations on control matters and accounting procedures, our audit also identified as required by the new Statement on Auditing Standards No. 112 several significant deficiencies and a material weakness in internal control that have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report letter has been included in the supplemental schedule of federal financial assistance (the single audit report). Items included in that report related to financial reporting are items surrounding account reconciliations and journal entries; property tax remittances; bank reconciliations; federal revenue reporting; and information technology.

Legislative and Other Matters

Property Taxes and Taxable Value Changes

Challenges with property values in the current Michigan economy have been very well publicized. A number of factors are impacting the market value of properties including foreclosures, properties on the market for extended periods of time, properties selling below market value, etc. Currently, property tax assessments are being completed for the 2008 tax year and tax rolls will not be finalized until May 2008. However, early indications are that declines in state equalized value may threaten the inflationary growth in taxable value that communities had been experiencing following the passage of Proposal A. We caution the City to keep this in mind as it reviews the expected financial results for 2008, its budget for 2009, and the next few years thereafter.

As a response to the situation with the real estate market, legislation is being discussed in Lansing to adjust the mechanics of the general property tax act. The nature of the legislation has ranged from the suspension of the “pop-up” or increase in taxable value that occurs when a property sells or a “super cap” on taxable value that prohibits an increase in taxable value when market values are declining. The outcome of this legislation could also have a significant impact on the City.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a preapproval for future debt issues. The current filing is due within six months of the City’s year end and is good for one year thereafter. The City should also consider the need to file a qualifying statement for each of its component units.

To the Honorable Mayor and
Members of the City Council
City of Melvindale

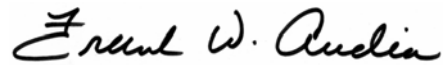
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June 2, 2008

We would like to thank you and your staff for the courtesy and cooperation extended to us during this audit. If you have any questions regarding this letter, please feel free to contact us.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Frank W. Audia".

Frank W. Audia

A handwritten signature in cursive script that reads "Stacey Reeves".

Stacey L. Reeves